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IN THE

Supreme Court of the United States

OCTOBER TERM, 1970

Docket No. 1200

IRVIN INDUSTRIES, INC.,

Petitioner,

—against—

AMERICAN HARLEY CORP.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE COURT OF APPEALS OF THE STATE OF NEW YORK

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Docket No.

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—against—

AMERICAN HARLEY CORP.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE COURT OF APPEALS OF THE STATE OF NEW YORK

Petitioner requests that a writ of certiorari issue to review the decision of the Court of Appeals of the State of New York entered on October 8, 1970. That decision affirmed the order of the Appellate Division of the Supreme Court, First Judicial Department of the State of New York, which affirmed the judgment of the trial court in favor of respondent and against petitioner on the alleged causes of action for tortious interference in the sum of $68,969.12 and for unfair competition without a finding of damages.

Opinions Below

The opinion of the Court of Appeals of the State of New York is reported in 27 N.Y.2d 168 (1970). It is reproduced as Appendix A. The opinion of the Appellate Division of the Supreme Court, First Judicial Department of the State of New York is reported in 33 App. Div. 2d 759 (1st Dept. 1970). It is reproduced as Appendix B.

Jurisdiction

The judgment of the Supreme Court of the State of New York, following the decision of the Court of Appeals on October 8, 1970, was entered on October 21, 1970. It is reproduced as Appendix C. The jurisdiction of this Court is invoked pursuant to 28 U.S.C. 1257(3) and 2101(c).

Question Presented

Without conflicting with United States patent law and policy and the decisions of this Court in *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964) and *Compco Corp. v. Day-Brite Lighting*, 376 U.S. 234 (1964) (in which state courts were reversed for enjoining, or exacting damages for, copying of an unpatented device on theories on unfair competition) may a state court, by granting relief for "tortious interference" with a patent license,

(a) punish the copying of a patented article where (i) if the patent is invalid, copying encouraged and fostered by federal law and policy is penalized, or (ii) if the patent is valid, the federal courts are ousted of original and exclusive jurisdiction and federal law pertaining to infringement is wholly disregarded?

(b) penalize the right to exploit a patented article, which right the complaint avers was granted by the co-owner of the patent and as a matter of federal law would be protected?

(c) award damages for copying an alleged patented article without regard to and wholly inconsistent with the federal law pertaining to damages for patent infringement?

Statutory Provisions Involved

United States Code, Title 28:

§ 1338 *Patents, copyrights, trade-marks, and unfair competition*

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trade-marks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases.

United States Code, Title 35:

§ 262 *Joint owners*

In the absence of any agreement to the contrary, each of the joint owners of a patent may make, use or sell the patented invention without the consent of and without accounting to the other owners.

§ 271 *Infringement of patent*

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

§ 281 *Remedy for infringement of patent*

A patentee shall have remedy by civil action for infringement of his patent.

§ 284 *Damages*

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

Statement of the Case

On October 1, 1958 respondent, American Harley Corp. ("American Harley"), was granted a purportedly exclusive license (Ex. 1, R. 896)* by a British corporation, Harley Patents (International) Ltd. ("British Harley") to manufacture, use and sell in the United States certain inventions, including an automobile seat belt buckle (the "Buckle").

Two years earlier, on October 19, 1956, an application had been filed by Frank B. Harley ("Mr. Harley"), managing director of British Harley, for a United States patent covering the Buckle. Mr. Harley had assigned a one-half interest to British Harley and had retained a one-half interest.

United States Patent No. 2,983,015 covering the Buckle did not issue until May 9, 1961 (Ex. 4, R. 930). Earlier, in the summer of 1959, petitioner Irvin Industries, Inc. ("Irvin") had expressed an interest in reaching an arrangement with American Harley to further the promotion and development of the Buckle in the United States. Prior thereto, on October 27, 1956, a subsidiary of Irvin, Irving Air Chute of Great Britain, Ltd. ("British Irving"), had

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* References are to the record on appeal filed with the Court of Appeals of the State of New York.

received from British Harley an exclusive license (Ex. 3, R. 921) to manufacture, use and sell the Buckle in Great Britain and certain designated foreign countries exclusive of the United States. British Irving had ascertained that the Buckle was capable of being misassembled and had developed and patented its own improvement thereon, not encompassed by the license from British Harley to American Harley, known as the "Hatfield Modification" (R. 121, 165, 475-481, 485, 486). Also, since patent counsel in the United States and in England were of the opinion that a prior patent owned by one Rave had anticipated the Harley patent (Ex. 21, R. 951; Ex. 31, R. 963), British Irving obtained a license from Rave (Ex. 48, R. 978).

Commencing in the summer of 1959 through mid-October 1961 (which encompassed the period when the Harley United States patent application was being prosecuted through the United States Patent Office), officers of American Harley and Irvin conferred on numerous occasions in an effort to reach a satisfactory arrangement relating to the manufacture and sale by Irvin in the United States of the Buckle. Various alternatives were explored (R. 191-192, 197-200, R. 614X-Y, R. 614QQ), but the parties were not able to conclude the matter.

On the assumption, however, that a satisfactory arrangement would be reached with American Harley, Irvin, in the second quarter of 1961 (R. 614DDD), purchased from British Irving 20,000 Buckles with the Hatfield Modification. These Buckles were incorporated into seat belts. In January, 1963, some time after negotiations between American Harley and Irvin had ceased, Irvin was granted permission to sell off in the United States its supply of seat

belts which incorporated the Buckles previously imported from British Irving (Ex. 70, R. 992). Irvin sold only 9,000 seat belts embodying the Buckle with the Hatfield Modification (R. 631). In February, 1963 all such seat belts were withdrawn from the United States market (Ex. K, R. 1037).

In May, 1963 American Harley advised British Harley of its desire to institute an action against Irvin for patent infringement (Ex. H, R. 1034), but British Harley advised American Harley that it declined to participate in that action (Ex. J, R. 1036).

The complaint charges Irvin with interfering with American Harley's patent license by inducing Mr. Harley and British Harley to permit Irvin "to import into and manufacture in the United States and advertise, promote and sell in the United States * * * seat belt buckles embodying the invention and improvements covered by United States Patent No. 2,983,015 * * *" (R. 9). The finding of unfair competition and tortious interference is bottomed entirely on the sale by Irvin of the Buckle with the Hatfield Modification which encompassed the Harley patent. American Harley does not contend that Irvin misrepresented or tried to palm off its Buckle with the Hatfield Modification as emanating from American Harley.

Prior Proceedings

In the Supreme Court of the State of New York, County of New York

The complaint alleges that petitioner tortiously interfered with respopdent's exclusive license by inducing the licensor and Mr. Harley (co-owner of the underlying patent) to

breach the license by permitting petitioner to import into and sell in the United States Buckles covered by the Harley patent; and that such conduct constituted unfair competition.

Counsel to petitioner in opening comments to the jury (R. 40) and during trial (R.321, 571) stated that respondent's claims were nothing more than a patent infringement suit over which the federal courts had exclusive jurisdiction. At the end of respondent's case, petitioner moved to dismiss the alleged causes of action for unfair competition and tortious interference on the grounds that respondent's complaint was in reality a patent infringement claim over which the federal courts had exclusive jurisdiction (R.875). Petitioner also moved that the court hold as a matter of law that the license held by respondent was not exclusive, since respondent obtained its license from only one of two co-owners of the patent and a co-owner of a patent does not have the power under federal law to grant exclusive rights thereto (R. 876). The trial court denied both motions (R.875-876). The jury found in favor of respondent against petitioner on the cause of action for tortious interference in the sum of $65,151.49 and on the cause of action for unfair competition but did not find damages.

Opinions of the Appellate Division, First Judicial Department of the Supreme Court of the State of New York

The majority of the Appellate Division rejected petitioner's contentions and the reasoning of the dissenting opinion which said the complaint should have been dismissed because respondent's right of recovery was so dependent upon the United States patent covering the Buckle as to deprive the state courts of jurisdiction of respondent's claim.

The majority said that jurisdiction of the federal courts is not exclusive "where neither the validity of plaintiff's cause of action nor a defense thereto rests upon a right created or impliedly protected by the patent laws" (R.1048-49). It also held that respondent's right of recovery was not dependent upon whether the subject buckle was patented or unpatented (R.1049):

> "The plaintiff's rights were derived from the exclusive franchise contract and its contractual rights existed independently and without regard to the effect and intendment of the federal law."

The majority opinion did not discuss the right of a co-owner of a patent to grant exclusive rights thereto.

The dissent took issue with the majority's conclusion that respondent's right of recovery was not derived from United States patent rights, holding that "essentially all we have before us is a patent infringement suit" (R.1051):

> "Inherent in the contract between plaintiff and Harley Patents International, Ltd., i.e., the patent license agreement, is the basic representation that Harley is the exclusive owner of the patented items of invention which were the subject of the contract. And plaintiff claims that Harley conspired with the defendant Irvin to import items covered by these patents into the United States, all in known violation of Harley's pre-existing exclusive grant of United States patent rights to the plaintiff, and that from the start the defendant questioned the basic validity of the patents. *Defendant clearly questioned the validity of the United States patent on the so-called Harley Buckle in view of the so-called Rave innovations, already on file in the patent office.* Thus, defendant could have justified its acts herein by demonstrating the invalidity of the patent. The license agreement did not confer any greater rights

upon the alleged patent holder or his licensee and does not place the plaintiff in any better position. And since even the plaintiff concedes we do not have a situation where the competitor's product was imitated, nor is there any element of palming off, all that remains is patent infringement over which the Federal courts have exclusive original jurisdiction (28 U. S. C. A., sec. 1338)." (Emphasis supplied.) (R.1050.)

The dissent also found that plaintiff's claim of unfair competition "rests on the defendant's use of the Harley Buckle, and plaintiff's claimed exclusive right to sell this buckle in the United States as a licensee of [British] Harley must necessarily rest upon the validity of the patent which can only be determined in the Federal courts". (R.1050.)

Opinions of the Court of Appeals of the State of New York

The majority of the Court of Appeals, viewing respondent's claim as involving "questions", not a "case", under the federal patent laws, held that respondent's causes of action do not "arise under" the federal patent laws and that therefore the federal courts are not vested with exclusive jurisdiction over the action. The opinion did not consider the question whether the complaint fails to state a cause of action because it avers that a co-owner of the patent (not the respondent's licensor) granted petitioner permission to copy the Buckle. It found sufficient evidence to support the damage award.

The concurring opinion of the Court of Appeals rejected the reasoning of both the majority opinion of the Appellate Division and the opinion of the Court of Appeals (Appendix A, p. 11):

"If the patent be invalid, none could enforce exclusive rights in the buckle, or recover damages for

interference with such illusory rights. *Sears, Roebuck & Co.* v. *Stiffel Co.* (376 U.S. 225) and *Compco Corp.* v. *Day-Brite Lighting* (376 U.S. 234) have held flatly that state courts may not enjoin, or exact damages for the copying, by a stranger, of an unpatented device. The rationale is that federal patent protection is exclusive, and state courts may not, on theories of unfair competition, provide the equivalent of patent protection to articles not patented, or incapable of patent, or extend the lives of patents granted by the Federal Government, thus defeating the policy of providing limited protections to patented inventions and unlimited availability of unpatented and unpatentable devices.

Consequently, given an invalid patent, under the *Sears* and *Compco* rule, there is no bar to a stranger's copying the basic design of the buckle at will, with the possible exception that he not mislead the public as to the manufacture of the article or commit any other act of unfair competition cognizable at the common law. If, by virtue of the invalid patent, an inventor would be powerless to confer an exclusive right to manufacture, use, or market, an interference with that illusory right would not be actionable, and would not involve any provable damages."

The opinion goes on to state that British Harley's permission to petitioner, although a nullity, gives rise to a state cause of action (Appendix A, p. 14):

"As discussed earlier, that permission could confer no authority upon Irvin under the patent laws, or shield it from a patent infringement action. To that extent British Harley's permission was a nullity. But apart from patent law, the permission did have impact. Permission, even if illusory, may encourage infringement which otherwise might not be attempted. By proceeding under a color of right the

> infringer minimizes potential harm to his commercial reputation and may increase his likelihood of sales. Irvin's use of the permission in its promotional activity demonstrates the value of the permission. Thus, although the permission may have been legally illusory, an exclusive licensee has a legitimate interest in preventing such permission from being given. When a third party induces the patentee to breach his contract with the licensee, a State cause of action arises not only as to the patentee, but by logical and legal extension as to one who tortiously interferes with that contract and induces the breach."

The concurring opinion assumes that the complaint fails to state a cause of action under federal law because it alleges that the co-owner of the patent granted a license to petitioner but states that petitioner could not avail itself of that defense upon appeal, despite the fact that petitioner had moved the trial court to hold that as a matter of law respondent's license was not exclusive as its rights were derived from only one co-owner. The opinion also states that respondent is entitled to its production, development, and promotion costs—not royalties—and that, although there is no direct proof of damage, the impact on respondent's sales efforts may be fairly inferred.

Reasons For Granting The Writ

The New York Court of Appeals has decided a patent infringement case in conflict with federal statutes and applicable decisions of this Court which establish a uniform and paramount scheme of patent regulation and provide for original and exclusive federal jurisdiction over patent causes.

1. The Court of Appeals decision collides with *Sears* and *Compco* and encourages enlargement of patent protection, which federal law does not intend, by the adoption of state theories of unfair competition and tortious interference.

(a) The decision of the Court of Appeals awarding damages for "tortious intereference" with a patent license conflicts with, undermines and circumvents the paramount federal scheme of patent regulation.

This is in reality a patent infringement case. The gravamen of the complaint—the wrong complained of and the alleged cause of damage—is that petitioner actually copied an allegedly patented article—*not* that petitioner obtained the consent of the patent licensor to do so. Without copying, there can be no damage, although consent to copy may have been obtained. Moreover, as stated by the concurring opinion of the Court of Appeals, any consent granted by the licensor to petitioner to exploit the patented article was a nullity, since the patent licensor could confer no authority to petitioner after it had divested itself of all exploitation rights by granting its own exploitation rights to respondent through a patent license. Nevertheless, the majority opinion of the Court of Appeals views respondent's claim as the assertion of a common law tort recognizable by a state court which is not dependent on the validity of

the alleged patent position of respondent. Petitioner respectfully submits that under governing federal law the validity or invalidity of the underlying patent is critical in determining the nature of respondent's rights and the forum in which they may be asserted.

If the patent covered by the patent license to respondent is invalid, then, as the concurring opinion of the Court of Appeals points out, *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964) and *Compco Corp.* v. *Day-Brite Lighting* 376 U.S. 234 (1964) hold flatly that state courts may not enjoin or exact damages for the copying of an unpatented device. See excerpt from concurring opinion of the Court of Appeals, *supra*, pp. 9-10, and dissenting opinion of the Appellate Division, Appendix B, pp. 19-20.

If, contrary to petitioner's view, the patent covered by the patent license is valid, then, if the gravamen of the complaint is copying and damage caused by copying, plaintiff's sole remedy is a patent infringement suit in federal court. Section 281 of Title 35 of the United States Code provides for a civil action for patent infringement, and Section 1338(a) of Title 28 of the United States Code provides for original and *exclusive* federal jurisdiction in such cases. Section 271 (b) of Title 35 of the United States Code deems a party who induces infringement of a patent to be liable as a patent infringer.

(b) This Court should make it very clear that, if state courts cannot on theories of unfair competition provide patent protection where none exists under federal law, they cannot do so under related theories. To assert that respondent's claim is merely one for common law "tortious interference" is to "enshrine form at the expense of sub-

stance." *Cable Vision, Inc.* v. *KUTV, Inc.*, 335 F.2d 348, 352 (9th Cir. 1964), cert. denied 379 U.S. 989 (1965). *Cable Vision, supra*, rejects this approach in the analogous field of federal copyright law. There, community antenna operators instituted an antitrust action against a television station. The defendant counterclaimed. It claimed exclusive rights, by reason of a contract, to certain television programs of its affiliated network stations, some of which were under copyright protection. It asserted that under state law the activities of the community antenna operators, because the community antenna received identical programs broadcast by affiliated stations in the network and because the operators simultaneously with the television station distributed them for profit, constituted (1) tortious interference with the station's contractual rights, and (2) unfair competition. The United States District Court sustained the counterclaim and granted injunctive relief. It concluded that, despite the absence of state statute or relevant case precedent, the common law of Idaho would recognize claims of contract interference and unfair competition such as those asserted. The Court of Appeals reversed. It held that, in order to prevail, the counterclaimant would have to bring and successfully prosecute a copyright infringement case and that circumvention of the traditional scheme of copyright protection could not be permitted (at pp. 351-352):

> "To the extent, then, that the District Court holding extended a new protectible interest beyond what the copyright laws confer, it '* * * interfere[d] with the federal policy * * * of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain.' * * * This same principle like-

> wise applies to appellees' claim of contract interference. *Parties by the mere expedient of an exclusive contract can not 'bootstrap' into existence rights from subject matter which at their source lie in the public domain.* * * * To allow these appellees relief on an alternative ground not substantially differing in gravamen from other relief foreclosed in operative effect by the Supreme Court's explicit holding would be to enshrine form at the expense of substance" (Emphasis supplied; citations omitted.)

See also *Hurn v. Oursler*, 289 U.S. 238 (1933), where the complaint contained two causes of action: one for defendant's infringement of plaintiff's copyrighted play, and a second for unfair competition under state law by means of the same use of plaintiff's material. Holding for defendant on the merits of the infringement claim, the District Court dismissed the unfair competition claim for lack of jurisdiction over this matter of state law—diversity being absent. This Court added that the correct result was reached by erroneous reasoning—the claim of unfair competition should also have been dismissed on the merits, for

> "* * * the claims of infringement and of unfair competition * * * are not separate causes of action, but different grounds asserted in support of the same cause of action." (p. 247)

(c) Notwithstanding the foregoing, if, as the concurring opinion of the Court of Appeals states, the illusory consent of the patent licensor to petitioner can be deemed to give rise to a "tortious interference" claim recognizable by and remedial under state law, then such state law is in conflict with the paramount federal scheme of patent regulation and must fall. See *Lear* v. *Adkins*, 395 U.S. 653 (1969) where this Court held that as a matter of federal law a patent licensee was not estopped to show the invalidity of the li-

censor's patent. In *Lear*, this Court found a collision between the competing demands of the common law of contracts and the federal law of patents and stated that in the field of patent regulation federal law is paramount and to the extent that there is a conflict with the federal scheme of regulation considerations of state law must yield.

(d) It is apparent that the decision of the Court of Appeals, if left intact, will greatly encourage claimants with invalid and dubious patent rights to cast their claims under varying state law notions of "unfair competition" and "tortious interference" in order to circumvent and avoid attacks on the validity of the underlying patent. Such results would be contrary to strong federal public policy. They would considerably enlarge and expand the limited protection granted by the patent monopoly. They would promote state protection of invalid and unpatented articles. And, as noted below, they would produce damage awards which would vary from state to state and be inconsistent with the rules governing damages for patent infringement.

2. Under controlling United States patent law the complaint does not state a claim upon which relief can be granted.

The decision of the Court of Appeals does further damage to the paramount federal scheme of patent regulation by affirming an award of money damages when the complaint itself avers that petitioner was granted the permission to exploit the patented article by the co-owner of the patent. Under 35 U.S.C. § 262 such permission grants petitioner the full right and power to sell the patented article. State law cannot defeat and nullify what prevailing federal law permits and sanctions.

The concurring opinion of the Court of Appeals assumes that such permission is a complete defense in the instant action, as it is in an infringement action (Appendix A, p. 15). The opinion, however, states that petitioner raised this point for the first time on appeal and thereby waived its rights, despite the fact that (a) petitioner raised the matter at trial (p. 7 herein), and (b) it is elementary that the failure to state a cause of action and lack of jurisdiction over subject matter may be raised at any time and may be raised for the first time on appeal.

3. The measure of damages is contrary to United States patent law.

The decision of the Court of Appeals does still further damage to the paramount federal scheme of patent regulation. The damages awarded respondent purportedly represent production, development, and promotion costs and expenses incurred by respondent in connection with the Buckle. The damage award avowedly has no relationship to reasonable royalties or license fees to be paid by an infringer, loss of profits or sales by a patent licensor or profits of an infringer. Petitioner argued in the state court that there was no proof that it caused respondent *any* loss or damage. The concurring opinion of the Court of Appeals stated that (Appendix A, pp. 15-16):

> "American Harley argued that while it could not prove lost profits, it was entitled to its production, development, and promotion costs. * * * Although there is no direct proof of particular items of damage, such as testimony that particular sales were lost as a result of Irvin's activities, the impact on American Harley's sales efforts may be fairly inferred."

No such damages were provided or contemplated by the provisions of 35 U.S.C. § 284 or any case thereunder.

CONCLUSION

For the foregoing reasons, the writ of certiorari should be granted.

Dated: New York, New York
December 31, 1970

Respectfully submitted,

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APPENDIX A

Opinions of the Court of Appeals of the State of New York

FULD, Ch. J.:

Harley Patents (International) Ltd. (hereinafter referred to as British Harley) owned certain patents covering an automobile seat belt buckle. In 1958, it granted American Harley Corp. an exclusive license to manufacture and sell that buckle in the United States and Canada. It had previously granted similar rights to the buckle to a European subsidiary of Irvin Industries, Inc., for England and Europe but not for the United States.

In 1959, owing to its success in Europe, Irvin gave thought to expanding its market to include the United States. It commenced negotiations with American Harley but, when those negotiations failed, approached British Harley directly. Believing that the latter might withdraw American Harley's license and grant the license to it, Irvin proceeded to invest considerable money in preparation for marketing the buckle in this country. However, after British Harley ultimately decided that American Harley should retain its license, Irvin prevailed upon the former, and this is the heart of the complaint in the present case, to grant it permission to sell 50,000 of the patented buckles in the United States—to recoup part of its investment—notwithstanding American Harley's prior exclusive license.

The complaint in this action by American Harley and its president against Irvin and its president charged wrongful interference with the plaintiff's exclusive license agreement with British Harley, slander of title and unfair competition. In their answer, the defendants denied the charges but did not challenge or question the validity of the patents involved

in American Harley's agreement with British Harley. The trial court dismissed the causes of action by and against the presidents of the respective companies as well as the cause of action for slander of title. The jury returned a verdict in favor of American Harley on the remaining counts, and the Appellate Division—one justice dissenting—affirmed the resulting judgment of some $88,989.

On this appeal, the defendant-appellant Irvin attacks the jurisdiction of the courts of this State to entertain this action. It contends that this suit, however disguised, is really one for patent infringement and, as such, is within the exclusive jurisdiction of the Federal courts. More particularly, Irvin claims that the plaintiff sued in tort in the State court in order "to avoid the necessity" of meeting the defense of patent invalidity—and application of *Sears, Roebuck & Co.* v. *Stiffel Co.* (376 U.S. 225) and *Compco Corp.* v. *Day-Brite Lighting* (376 U.S. 234)—which, it states, may only be raised in the Federal courts.[1]

This argument misconceives the law since neither the plaintiff's reliance on a patent license agreement nor the purported existence of a defense based on the patent's invalidity affects the court's jurisdiction. It is firmly settled

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[1] Since, as noted above, the patent was not challenged by the defendant, and is, therefore, "presumed valid" (U.S. Code, tit. 35, §282), the merits of the defense based upon *Sears* and *Compco* are not before us and need not be discussed. However, we note, in passing, that it is not at all clear—contrary to statements in the concurring opinion (pp. 4-5)—that the alleged invalidity of the patent would defeat the plaintiff's action in whole or in part under the doctrine of those cases. (See, e.g., *Koratron Company* v. *Deering Milliken, Inc.*, 418 F. 2d 1314, 1318, cert. den. 398 U.S. 909. Cf. *Water Services, Inc.* v. *Tesco Chemicals, Inc.*, 410 F. 2d 163, 171-172, and *Servo Corporation of America* v. *General Electric Co.*, 337 F. 2d 716, 725, dealing with trade secrets.)

that the Federal courts have exclusive jurisdiction, and the State courts are ousted of jurisdiction, *only if the action brought "arises under" the Federal patent laws.* Thus, actions involving contracts relating to patents—or copyrights—are not considered suits arising under those laws, and are properly brought in the State court, even if the validity of the patent may somehow be involved and the plaintiff could have brought suit for its infringement in the Federal court.[2] In other words, the fact that the foundation for suit is a contract granting patent rights and that the plaintiff must rely on the patent in support of his cause of action is not determinative and neither vests the Federal court with jurisdiction nor deprives the State court of power to entertain the action. (See, e.g., *Luckett* v. *Delpark,* 270 U.S. 496, 502; *American Well Works* v. *Layne,* 241 U.S. 257, 260; *Koratron Company* v. *Deering Milliken, Inc.,* 418 F. 2d 1314, 1316, cert. den. 398 U.S. 909; *T. B. Harms Co.* v. *Eliscu,* 339 F. 2d 823, 825; *Condon* v. *Associated Hospital Service,* 287 N.Y. 411, 413-414; *New Era Electric Range Co.* v. *Serrell,* 252 N.Y. 107, 112-113; *Underhill* v. *Schenck,* 238 N.Y. 7, 14; *Stowe* v. *Croy,* 284 App. Div. 302, 304-305; see, also, Anno., 167 ALR 1114.)

The rule is well exemplified by the decision in the *American Well Works* case (241 U.S. 257, *supra*) which concerned a claim of unfair competition based upon alleged false charges of patent infringement. In holding that the action was properly brought in the State court, despite the fact that the validity of the patent may have been "involved" in a defense of justification, the Supreme Court (*per* Holmes, J.) wrote (pp. 259-260):

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[2] Federal jurisdiction over copyright actions is governed by the same statute as governs patent actions (U.S. Code, tit. 28, § 1338[a]).

> "A suit for damages to business caused by a threat to sue under the patent law is not itself a suit under the patent law. And the same is true when the damage is caused by a statement of fact—that the defendant has a patent which is infringed. What makes the defendants' act a wrong is its manifest tendency to injure the plaintiff's business and the wrong is the same whatever the means by which it is accomplished. But whether it is a wrong or not depends upon the law of the State where the act is done, not upon the patent law, and therefore the suit arises under the law of the State. A suit arises under the law that creates the cause of action. *The fact that the justification may involve the validity and infringement of a patent is no more material to the question under what law the suit is brought than it would be in an action of contract.*" (Emphasis supplied.)

Even more to the point is *Koratron Company* v. *Deering Milliken, Inc.* (418 F 2d 1314, *supra*), in which the plaintiff, just as American Harley herein, sued for wrongful interference with contract. In that case, the court, after noting that the Supreme Court has consistently held that such an action was not "one 'arising under' the patent laws * * * despite the fact that * * * the scope or the validity of a patent, or both, was directly in issue" (pp. 1316-1317), went on to say (p. 1317):

> "According to these [Supreme Court] decisions, characterization of the action as a patent or non-patent suit within the meaning of section 1338(a) turns on the form in which the plaintiff has chosen to cast his complaint; '* * * Jurisdiction generally depends upon the case made and relief demanded by the plaintiff * * *.' [Cases cited.]

"Interference with contract and interference with prospective economic advantage are state causes of action. *When the subject matter of the contract interfered with is a patent * * * questions of patent law will often arise in the controversy. But that fact does not make the action one arising under the patent laws.*" (Emphasis supplied.)

Moreover, contrary to the appellant's contention, it is clear, as we have already indicated, that the state court can, where it becomes necessary for it to do so in order to decide the case before it, pass upon the meaning, the scope, *the validity*, or the infringement of the patent." (*Lear Sieglar, Inc.* v. *Adkins*, 330 F. 2d 595, 600 [emphasis supplied]; see, also, *American Well Works* v. *Layne*, 241 U.S. 257, 260, *supra*; *Pratt* v. *Paris Gaslight and Coke Co.*, 168 U.S. 255, 259; cf. *Lear, Inc.* v. *Adkins*, 395 U.S. 653). The key, as our court has pointed out (*New Era Electric Range Co.* v. *Serrell*, 252 N.Y. 107, 112, *supra*), is the distinction between "questions" arising under the patent laws and "cases" arising under those laws. The State is precluded from entertaining the action only in the latter instance.

It is only necessary to add, in view of other arguments advanced by the appellant, that, since it neither alleged the invalidity of the patent in its pleading nor offered any proof of such invalidity at the trial, we are not called upon to discuss questions which might have arisen had the patent been challenged.

In sum, then, the trial court had unquestioned jurisdiction to entertain the present action for tortious interference with contract and, since the jury's verdict is amply supported by the evidence, there must be an affirmance.

The order appealed from should be affirmed, with costs.

BREITEL, J. (concurring):

It is not enough to conclude, as the court is unanimous in doing, that defendant Irvin Industries may not, on this record, contend that an invalid patent is involved. The fact is that in the Appellate Division the majority held, incorrectly it is suggested, that the validity of the patent was not crucial to plaintiff's cause of action. Notably, this action, however pleaded, involves the copying of a device and not an unfair use of a trade secret or breach of a confidential relationship. Hence, the plausibility albeit the incorrectness of defendant's contentions that this action is for an "infringement" and therefore exclusively within the federal jurisdiction. Moreover, the dissenter at the Appellate Division most certainly viewed the action as not lying in the state court's jurisdiction because it was in effect an action for infringement and that defendant had properly contested the validity of the patent. Hence, the issues are not disposed of completely by deciding that federal exclusive jurisdiction does not attach merely because patent validity is involved, or that the record does not show that invalidity of the patent may be asserted. The nub is that plaintiff would have no cause of action if it seeks protection from the state courts, directly or indirectly, for an unpatented or unpatentable article, a point discussed below. Yet it is also true that involvement of a patent does not alone deprive the state court of jurisdiction.

For these reasons it is incumbent to elaborate upon the result upon which the court is in agreement.

After trial plaintiff recovered a judgment for damages for tortious interference with an exclusive franchise or licensing agreement covering a patented article. Defendant, Irvin Industries, the alleged tortfeasor, manufactured and sold in the United States a quantity of the patented article for which plaintiff, American Harley, held an exclusive license from one of the British patent owners, Harley Patents (International) Limited. Before doing so, Irvin obtained the "permission" of the British patent owner, despite the prior exclusive license to American Harley, and the owner's express covenant to American Harley not to grant permission to others.

Defendant Irvin in appealing contends that the state courts are without jurisdiction, because, however disguised, plaintiff's cause of action is really for infringement of the patent, in which event the federal courts have exclusive jurisdiction. On the other hand, defendant argues that if the patent is invalid then there was no tortious interference with any protectable interest; the permission it obtained from British Harley was of no significance since it or anyone else was free to manufacture and distribute the patented article. It also argues that the complaint fails to state a cause of action in that it alleges that defendant was given a license to sell the article by a co-owner of the patent not in privity with plaintiff. Finally, it urges that there is insufficient proof of damages, both as to cause and extent.

Plaintiff recovered an aggregate judgment of $88,989.12 after a jury trial. Causes of action on behalf of plaintiff Alan P. McHenry, president of American Harley, were dismissed, as were causes of action against Charles H. Pulley, president of Irvin. A cause of action for slander of title

was dismissed during the trial. The Appellate Division, by a divided court, affirmed (33 A D 2d 759).

The Appellate Division order should be affirmed, but not for the reasons there stated. On analysis plaintiff establishes a separable common law cause of action apart from any rights deriving from federal patent law. In consequence, plaintiff properly pursued its state remedy as an alternative to a patent infringement action in the federal courts.

In 1958, plaintiff American Harley entered into an exclusive licensing agreement for the manufacture, sale and distribution in the United States and Mexico of items covered by certain secured and pending patents held by British Harley (Harley Patents [International] Limited). In addition to conferring the exclusive license, British Harley covenanted not to permit others to make or sell the items in those countries. One pending patent covered a two-piece automobile safety seat belt buckle. Although the agreement recited that British Harley was the sole and exclusive owner, in fact a half ownership was held by the inventor, Frank Bernard Harley, managing director of British Harley. An American patent was granted in 1961. A British subsidiary of Irvin had acquired a license in 1956 to manufacture, use and sell the buckle in Great Britain, and most of Europe, Asia and parts of Africa.

Irvin, interested in selling the buckle in the American market, and on the advice of British Harley, negotiated with American Harley. The parties, however, could not agree on a price for the buckles to be furnished to Irvin by American Harley. During the extensive negotiation period, British Harley, displeased with the lack of progress, threat-

ened to revoke American's license. Although British Harley ultimately decided to maintain its outstanding license with American Harley, it, nevertheless, authorized Irvin Industries to sell in the United States 50,000 of the buckles Irvin had imported or had made in the United States. British Harley declined to furnish defendant Irvin with an indemnity agreement, which it had first requested as essential.

Irvin sold its buckles in the United States both before and after receiving permission from British Harley. It told prospective purchasers that it expected to be licensed as the American manufacturer of the patented buckle. Some 20,000 buckles were imported from Irvin's British subsidiary, and 5,000 manufactured in the United States. At least 9,000 buckles were sold by Irvin in the United States.

Plaintiff American Harley's basic contention is that defendant Irvin induced British Harley to breach its agreement with it for an exclusive license and with the shield of permission from British Harley competed in the American market to plaintiff's damage. It argues that its failure to sell more than 1,000 of its buckles was due to this tortious interference. Beyond that it argues that its claim rests on a common law tort of interference with its exclusive agreement and does not depend upon the patent, its validity, or the license as such which it had obtained from British Harley.

The jury found both tortious inducement of breach of contract and unfair competition, and awarded full damages as requested.

In the Appellate Division the majority and dissenting opinions turned on whether the validity of the patent would be determinative of the outcome of the suit. Characterizing the license as a "franchise agreement", the majority reasoned that the causes of action were based on rights recognized at common law independent of the validity of the underlying patent. Mr. Justice McGivern, in dissenting, argued that the force of the licensing agreement was tied to the validity of the underlying patent, which could only be determined in a patent infringement action brought in a federal court. Moreover, the dissenter stated that the only wrong alleged was patent infringement which could be determined only in the federal courts. (33 A D 2d 759.)

That validity of the patent is involved in an action is not determinative of jurisdiction. Although federal courts have exclusive jurisdiction over cases arising under the patent laws (U.S. Code, tit. 28, § 1338[a]), state courts may determine the validity of a patent when incidental to an action based on contract or tort (see *Middlebrook* v. *Broadbent,* 47 N.Y. 443, 446-447; *Zenie* v. *Miskend,* 245 App. Div. 634, 637-639, aff'd. 270 N.Y. 636). The principle was recently affirmed in *Lear, Inc.* v. *Adkins,* (395 U.S. 653) holding that a licensee was not estopped in an action brought by the owner for royalties from proving that the patent was invalid. Although the validity of the patent was now squarely in issue, the Supreme Court nevertheless remanded the case to the California courts, to pass on the alleged invalidity. (*Id.* at pp. 670-671, 675-676.) The issue in determining jurisdiction is whether the alleged causes of action are in fact different from an action from infringement, protecting rights and interests consistent with, but apart from, those created by the patent laws.

Despite the Appellate Division characterization of the present action as one for inducing the breach of a "franchise agreement", the validity of the patent is an integral part of the cause of action. The gravamen of American Harley's complaint is that Irvin is interfering with an exclusive patent license American Harley had procured from British Harley.

If the patent be invalid, none could enforce exclusive rights in the buckle, or recover damages for interference with such illusory rights. *Sears, Roebuck & Co.* v. *Stiffel Co.*, (376 U.S. 225) and *Compco Corp.* v. *Day-Brite Lighting*, (376 U.S. 234) have held flatly that state courts may not enjoin, or exact damages for the copying, by a stranger, of an unpatented device. The rationale is that federal patent protection is exclusive, and state courts may not, on theories of unfair competition, provide the equivalent of patent protection to articles not patented, or incapable of patent, or extend the lives of patents granted by the Federal Government, thus defeating the policy of providing limited protections to patented inventions and unlimited availability of unpatented and unpatentable devices.

Consequently, given an invalid patent, under the *Sears* and *Compco* rule, there is no bar to a stranger's copying the basic design of the buckle at will, with the possible exception that he not mislead the public as to the manufacture of the article or commit any other act of unfair competition cognizable at the common law. If, by virtue of the invalid patent, an inventor would be powerless to confer an exclusive right to manufacture, use, or market, an interference with that illusory right would not be actionable, and would not involve any provable damages.

Although the patent's invalidity could have been raised as a partial or complete defense in this action, it was not raised. It was involved only in a collateral matter. Reference to possible invalidity was made incidentally by Irvin to justify its negotiations with British Harley in order to show that its reduction of royalty payments for its non-American sales was not designed to force British Harley to give it the permission to compete with American Harley. It was neither pleaded nor argued that the patent was in fact invalid, or that this constituted a defense. The validity of the patent, therefore, stands unchallenged in the action.

As noted earlier, the fact that a valid patent may be essential to plaintiff's causes of action is not determinative of jurisdiction. State court jurisdiction depends upon whether the causes of action are based upon common law or state causes of action, whether for breach of contract, tortious interference with contract, or unfair competition.

American Harley contends that its claims involve valid state causes of action, and that only state law provides a remedy for Irvin's conduct, consisting of tortious interference or unfair competition. It contends that the license agreement is an executory contract as well as a license and that a state remedy will lie for breach of the contract or tortious interference with it. It buttresses this contention with the argument that if there were no state remedy in this case it would have none, since it may not sue for an infringement against one who has the license or premission of the patent owner.

The argument that state jurisdiction should be recognized out of necessity lacks basis. There is no support for the view that a suit for patent infringement is not available to Ameri-

can Harley. Indeed, the general requirement that a licensee sue in the name of the patent owner is not inflexible. Where the patent owner is the infringer, a licensee may sue him for infringement in the licensee's name alone (*Littlefield* v. *Perry*, 21 Wall [88 U.S.] 205, 222-223). It follows that a third party has no greater immunity by virtue of an ineffective license from the patent owner (see *Excelsior W.P. Co.* v. *Pacific Bridge Co.*, 185 U.S. 282, 290-291, 294-295; *cf. Goodyear* v. *McBurney*, Fed. Case No. 5,574 [10 Fed Cases 599]); Ellis, Patent Licenses [3d ed.], § 391). Moreover, if the lecensee must sue in the name of the patent owner who is without the jurisdiction, he may join the owner as co-plaintiff without his consent (*Ind. Wireless Co.* v. *Radio Corp.*, 269 U.S. 459, 472).

The existence of a federal remedy will not preclude state courts from affording their own remedies, providing that relief is based on cognizable and separable common law rights. Those with the power to enforce a patent may elect to waive the infringement and, instead, sue on the agreement relating to the use of the patented article. The state courts have jurisdiction even if damages would be measured by the same loss which results from infringement, and recovery would preclude further damages for the infringement. (*Henry* v. *Dick*, 224 U.S. 1, 14.) Invasions over which the state courts may have cognizance include palming off, or other forms of unfair competition, or affronts to contract rights based on patents, such as royalties (*Lear* v. *Adkins*, 395 U.S. 653, *supra*; *Luckett* v. *Delpark*, 270 U.S. 496, 510-511; *Condon* v. *Associated Hospital Service*, 287 N.Y. 411; *Wise* v. *Tube Bending Machine Co.*, 194 N.Y. 272, 278; *Zenie* v. *Miskend*, 245 App. Div., 634, 637-639, affd. 270 N.Y. 636,

supra; Koratron Company v. *Deering Milliken, Inc.*, 418 F. 2d 1314, 1317-1318, but see *Continental Store Service Co.* v. *Clark*, 100 N.Y. 365, esp. pp. 368-369).

The instant cause of action does not arise directly out of an agreement between American Harley and Irvin, but out of Irvin's alleged interference with the agreement between American Harley and British Harley. That interference consisted of obtaining from British Harley, contrary to its agreement with American Harley, permission to sell Harley buckles in violation of American Harley's exclusive license.

As discussed earlier, that permission could confer no authority upon Irvin under the patent laws, or shield it from a patent infringement action. To that extent British Harley's permission was a nullity. But apart from patent law, the permission did have impact. Permission, even if illusory, may encourage infringement which otherwise might not be attempted. By proceeding under a color of right the infringer minimizes potential harm to his commercial reputation and may increase his likelihood of sales. Irvin's use of the permission in its promotional activity demonstrates the value of the permission. Thus, although the permission may have been legally illusory, an exclusive licensee has a legitimate interest in preventing such permission from being given. When a third party induces the patentee to breach his contract with the licensee, a State cause of action arises not only as to the patentee, but by logical and legal extension as to one who tortiously interferes with that contract and induces the breach.

Nor do the *Sears* and *Compco decisions* (*supra*) preclude a state cause of action. They deal with attempts by state

courts to provide the equivalent of patent protection to articles either unpatented or ineligible for patent protection. As discussed earlier, the instant cause of action is to enforce contract rights relating to inventions protected by the patent law, and therefore does not undermine federal policy.

Irvin also argues in this court, for the first time, that the complaint fails to state a cause of action because it alleges that Frank Harley, one-half owner of the patent, granted a license to Irvin, and that he was not a party to the exclusive licensing agreement between American Harley and British Harley. Assuming that this is a complete defense in this action, as it is in an infringement action (see U.S. Code, tit. 35, § 262), it may not avail Irvin at this stage of the appeal. First, the silence at trial denied American Harley an opportunity to amend the complaint, or to prove at trial that Frank Harley was bound individually by the Harley American exclusive licensing agreement he signed as manager of British Harley. Second, the case went to the jury on plaintiff's theory that the subsequent license to Irvin was signed by Harley as manager of British Harley, and not in his individual capacity. The jury, by its verdict, found that the permission had been given by the company and presumably not by Harley individually. Since the facts proved at the trial constitute a valid cause of action, argument will not be heard for the first time on appeal that the complaint was defective (see Cohen & Karger, Powers of the New York Court of Appeals, p. 637; *McClelland* v. *Mutual Life Ins. Co.*, 217 N.Y. 336, 348; *Schoepflin* v. *Coffey*, 162 N.Y. 12, 16-17).

Irvin's final argument challenges the adequacy of American Harley's proof of damages, and causation. American

Harley argued that while it could not prove lost profits, it was entitled to its production, development, and promotion costs.

The costs of the abortive venture were shown by estimating the proportion of American Harley's total efforts and expenses devoted to marketing the buckle. This testimony, although less than precise, represented a fair approximation of American Harley's loss. If it was shown that Irvin's sales substantially ruined American's prospects, American is entitled to its development expenses, apart from the speculative nature of the enterprise and the inability to prove lost profits (see *Bernstein* v. *Meech*, 130 N.Y. 354, 359-360).

Although there is no direct proof of particular items of damage, such as testimony that particular sales were lost as a result of Irvin's activities, the impact on American Harley's sales efforts may be fairly inferred. Irvin, with its established sales organization, told potential customers that it would have the license to sell the Harley buckle, claimed its version of the buckle was greatly improved, and offered it for half the price that American Harley was asking. Given the showing of Irvin's wrongdoing in this case, and the natural consequences of its acts, American Harley should not be required to prove more merely to recoup its losses in the project.

Accordingly, I concur in the view that the order of the Appellate Division should be affirmed.

* * * * *

Order affirmed, with costs. Opinion by Fuld, Ch. J. All concur, Breitel, J., in an opinion in which Jasen, J. concurs. Burke, J., taking no part.

APPENDIX B

Opinions of the Supreme Court, Appellate Division, First Judicial Department of the State of New York

Judgment entered on March 27, 1969, affirmed with $50 costs and disbursements to plaintiff-respondent. The jury verdict in favor of plaintiff is supported by the evidence and we find no merit in the defendant's several claims of error. Furthermore, we reject the contention of the defendant and the reasoning of the dissent that the plaintiff's right of recovery is so dependent upon the federal patent covering the Harley seat belt buckle as to deprive the state courts of jurisdiction of plaintiff's cause of action (Sears, Roebuck & Co., v. Stiffel Co., 376 U. S. 225; Compco Corp. v. Day-Brite Lighting, 376 U. S. 234; Merchant Suppliers v. Photo-Marker Corp., 29 A. D. 2d 94), cited in the dissenting memorandum, are factually distinguishable. In the Sears and Compco cases, the United States Supreme Court was concerned with the copying and marketing of unpatented articles. The court in Sears held that: "An unpatented article, being in the public domain, may be freely copied, though labeling or other precautions may be required by state law where appropriate to prevent deception as to source" (see official headnote). In Compco, the same court, following Sears, concluded that in so far as a judgment of a state court forbid the sale of a copy of an unpatented article and ordered an accounting for damages for such copying, the judgment could not stand. We do not read the opinions in the Sears and Compco cases as having the effect of completely striking down well established legal precedents of allowing recovery in State courts for tortious interference or unfair competition where neither the validity

of plaintiff's cause of action nor a defense thereto rests upon a right created or impliedly protected by the patent laws (see 2 Nims, The Law of Unfair Competition and Trade-Marks sec. 363 [4th ed. 1947]; 167 A. L. R. 1114, J. E. Macy, Jurisdiction of State Court Over Actions Involving Patents [1947]; New Era Electric Range Co. v. Serrell, 252 N. Y. 107; Waterman v. Shipman, 130 N. Y. 301; Mayer v. Hardy, 127 N. Y. 125; Zenie v. Miskend, 245 App. Div. 634, affd. 270 N. Y. 636; Vidal Corp. v. Langley Aviation Corp., 48 N. Y. S. 2d 824).

Here, the plaintiff bases its suit upon rights recognized at common law and in general equity jurisprudence without regard to whether or not the seat buckle is the subject of a valid patent. The plaintiff's right of recovery is not dependent upon whether the Harley seat buckle was patented or unpatented. Thus, there is no merit in defendant's contention that the only redress of the plaintiff is a patent infringement suit in the federal court. Consequently we disagree with the statements in the dissent that the "defendant could have justified its acts herein by demonstrating the invalidity of the patent" and with the position taken by the dissent that the plaintiff's rights "must necessarily rest upon the validity of the patent which can only be determined in the Federal courts." The plaintiff's rights were derived from the exclusive franchise contract and its contractual rights existed independently and without regard to the effect and intendment of the federal law. Consequently, the liability of the defendant is grounded upon its wrongful acts in violation of non-federal rights of plaintiff. Therefore, we conclude that this action was properly maintainable in the Supreme Court of this State for redress of the defendant's wrongful acts.

Appendix B—Opinions of the Supreme Court, Appellate Division, First Judicial Department of the State of New York

All concur except McGivern, J., who dissents in the following memorandum:

It is my view that for fundamental reasons the judgment appealed from must be reversed and the complaint dismissed.

Inherent in the contract between plaintiff and Harley Patents International, Ltd., i.e., the patent license agreement, is the basic representation that Harley is the exclusive owner of the patented items of invention which were the subject of the contract. And plaintiff claims that Harley conspired with the defendant Irvin to import items covered by these patents into the United States, all in known violation of Harley's preexisting exclusive grant of United States patent rights to the plaintiff, and that from the start the defendant questioned the basic validity of the patents. Defendant clearly questioned the validity of the United States patent on the so-called Harley Buckle in view of the so-called Rave innovations already on file in the patent office. Thus, defendant could have justified its acts herein by demonstrating the invalidity of the patent. The license agreement did not confer any greater rights upon the alleged patent holder or his licensee and does not place the plaintiff in any better position. And since even the plaintiff concedes we do not have a situation where the competitor's product was imitated, nor is there any element of palming off, all that remains is patent infringement over which the Federal courts have exclusive original jurisdiction (28 U. S. C. A., sec. 1338).

Here, the plaintiff bases its suit upon rights recognized at rests on the defendant's use of the Harley Buckle, and plaintiff's claimed exclusive right to sell this buckle in the United

States as a licensee of Harley must necessarily rest upon the validity of the patent which can only be determined in the Federal courts (Sears, Roebuck & Co. v. Stiffel Co., 376 U. S. 225; Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234, 238; Merchant Suppliers Paper Co., Inc., v. Photo-Market Corp., 29 A. D. 2d 94, 96-97). And it may be observed, the sequence of dates involved herein indicates plaintiff's license derives from the British patent which could not enlarge plaintiff's right in the United States if there exists a competing United States patent. In any event, even if it be assumed plaintiff's rights are derived from the later obtained United States patent, since essentially all we have before us is a patent infringement suit, I would reverse.

Order filed.

APPENDIX C

Judgment of the Supreme Court of the State of New York, County of New York

SUPREME COURT OF THE STATE OF NEW YORK

COUNTY OF NEW YORK

Index No. 16368/63

AMERICAN HARLEY CORP.,

Plaintiff-Respondent,

and

ALAN P. McHENRY,

Plaintiff,

—against—

IRVIN INDUSTRIES INC.,

Defendant-Appellant,

and

CHARLES H. PULLEY,

Defendant.

Irvin Industries Inc., the above named defendant, having appealed to the Court of Appeals from an order of the Appellate Division, First Department, entered in the office of the Clerk of said Appellate Division on the 11th day of December, 1969, which order affirmed a judgment of the Supreme Court, New York County, entered in the office of the Clerk of the County of New York on March 27, 1969 that plaintiff American Harley Corp. have judgment against defendant Irvin Industries Inc. in the amount of $88,989.12;

and the Court of Appeals on October 8, 1970 having affirmed the said order of the Appellate Division with costs to plaintiff; and the remittitur of the Court of Appeals having been duly filed herein; now on motion of Kantor, Shaw & Ryan, by Donald H. Shaw, attorneys for the plaintiffs herein, it is

ADJUDGED that the judgment appealed from be and the same is hereby affirmed, and it is further

ADJUDGED that plaintiff American Harley Corp., of 555 Madison Avenue, New York, N. Y., recover from defendant Irvin Industries Inc., of 445 Park Avenue, New York, N. Y., the sum of $709.58, its costs and disbursements as taxed by the Clerk of this Court, and that plaintiff have execution therefor.

Judgment signed this 21st
day of October, 1970

NORMAN GOODMAN
Clerk

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IN THE

Supreme Court of the United States

October Term, 1970.

Docket No. 1200.

IRVIN INDUSTRIES, INC.,
Petitioner,

against

AMERICAN HARLEY CORP.,
Respondent.

Respondent's Brief in Opposition to Petition for a Writ of Certiorari to the Court of Appeals of the State of New York.

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Of Counsel.

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In The

Supreme Court of the United States

October Term, 1970

IRVIN INDUSTRIES, INC.,

Petitioner,

against

AMERICAN HARLEY CORP.,

Respondent.

Docket No. 1200

Brief for Respondent American Harley Corp. in Opposition to Petition for a Writ of Certiorari.

Questions Presented.

1. Whether this court should determine if petitioner was free to induce the breach of an agreement licensing a patent whose validity was not disproved.

2. Whether this court should determine if an action for inducing breach of a patent license agreement can only be tried in a Federal court.

3. Whether this court should determine if the complaint or the measure of damages encroaches upon Federal patent law.

Statement of the Case.

Petitioner Irvin and respondent American Harley held exclusive licenses to patents issued in different parts of the world (Pl. Ex. 1; R. 84, 104, 894; Pl. Ex. 3; R. 98, 921).* The patents covered an automobile seat belt buckle invented by Mr. Harley (Pl. Ex. 4; R. 98, 930). Irvin's rights were effective in Europe and in England, where Mr. Harley lived, and his corporation, British Harley, had its office. American Harley's rights were effective in the United States, where it sold various products invented by Mr. Harley (R. 107-8). British Harley and Mr. Harley were co-owners of the patent in the United States (Pl. Ex. 4; R. 98, 930).

Irvin became interested in obtaining the United States patent covering the buckle during 1959 (Pl. Ex. 5; R. 110, 934; Pl. Ex. 8; R. 124, 937). At the time, automobile manufacturers and the American public were becoming aware of the advantages of the use of seat belts for greater passenger safety. Irvin's sales of seat belts in England and Europe led it to believe that the Harley buckle could be successfully sold in the United States (Pl. Ex. 8; R. 124, 937; Pl. Ex. 17; R. 141, 948; Pl. Ex. 22; R. 158, 953).

Representatives of Irvin and American Harley began to discuss a sub-license during mid-1959 (R. 119-120) but could not agree upon price (Pl. Ex. 20; R. 158, 953; R. 142-4). Negotiations were resumed during mid-1961 (Pl. Ex. 22; R. 158, 953; 168). While terms were again being discussed, American Harley was notified by British Harley that the likelihood of production in "large quantities" had been held out to it by Irvin, and unless American Harley came to an agreement with Irvin, the buckle would be withdrawn from American Harley's line

*References are to the record on appeal on file with the Clerk of the Court of Appeals of the State of New York

(Pl. Ex. 23; R. 161, 955). This threat to disenfranchise American Harley was not fulfilled. On July 27, 1961, British Harley's royalties were reduced (Pl. Ex. 29; R. 563, 960).

During early September, 1961, representatives of American Harley, British Harley and Irvin's English subsidiary met in London (Pl. Ex. 30; R. 196, 961). American Harley agreed under "pressure" that it would enter into a sub-license with Irvin providing for a royalty of 6¢ per buckle and a yearly minimum of 100,000 buckles (Pl. Ex. 33; R. 207, 966; R. 191-9). When American Harley's representative returned to the United States and informed Irvin of the terms discussed in London, Irvin's president falsely denied being aware of the royalty agreement (Pl. Ex. 33; R. 207, 966; R. 211). Irvin refused to agree to pay more than 3¢ per buckle (R. 211-215; R. 738). Thereafter, Mr. Harley was told by Irvin that American Harley had "reneged" upon the understanding reached in London (R. 220-1). As a result of this, British Harley notified American Harley that it had decided to take the rights under the patent in the United States away from American Harley and to give them to Irvin (Pl. Ex. 35; R. 218, 969; R. 741-2). When American Harley contacted Irvin about Mr. Harley's threat, Irvin stated that it would do nothing until an agreement had been reached between the two companies (Pl. Ex. 41; R. 228, 973). At the same time, Irvin wrote to its English subsidiary suggesting that the time might be appropriate to attempt to take away the rest of the items licensed to American Harley and that this should be done through a subsidiary corporation "• • • so as not to be definitely identified with Irvin" (Pl. Ex. 40; R. 227, 971).

American Harley and Irvin continued efforts to produce the Harley buckle (R. 232; R. 237-238; R. 475-482; R. 540-4). Irvin also continued its efforts to obtain the exclusive right to the patent in the United States. Irvin proposed that British Harley enter into an exclusive license agreement with it, and asked British Harley to agree to indemnify Irvin from any action American Harley might take (Pl. Ex. 48; R. 230, 763, 978). Irvin imported 30,000 buckles from its English subsidiary during 1962 and began producing the buckle in the United States (Pl. Ex. 66; R. 717, 989).

During the summer of 1962, Mr. Hartley declined to execute the license agreement requested by Irvin (Pl. Ex. 59; R. 270, 983). He came to the United States during the fall of 1962 (Pl. Ex. 62; R. 283, 986). While here, he decided not to take the license away from American Harley (Pl. Ex. 63; R. 292, 987). When news of this reached Irvin, it wrote to its English subsidiary asking it to obtain permission to sell 250,000 buckles in the United States (Pl. Ex. 66; R. 717, 989). By letter dated January 16, 1963, from British Harley to Irvin's English subsidiary, Irvin received permission to sell 50,000 buckles (Pl. Ex. 70; R. 307, 992).

The total number of buckles sold by Irvin was never shown. Invoices were produced by Irvin in response to subpoena. They showed sale of only 9,000 seat belts (R. 631-2; R. 655-662). The invoices did not continue past October, 1962, although Irvin was still selling the product in May of 1963 (R. 655-662; R. 631).

Irvin's activities paralleled American Harley's activities throughout the United States. Both companies tried to sell the device to automobile manufacturers, automobile accessory stores, and the public (R. 319-337). Irvin's product was extensively advertised and promoted by its

sales force (Pl. Ex. 72; R. 720, 993; R. 620). Its sales presentation emphasized the fact that the buckle was covered by the Harley patent (A14; Petitioner's Brief). The Harley patent number appeared on the Irvin buckle (Pl. Ex. 84; Pl. Ex. 85). Irvin's product sold for roughly half the price of the American Harley product (Pl. Ex. 72; R. 702, 993; Pl. Ex. 88; R. 344, 1019). The two devices looked the same (Pl. Ex. 77; R. 302, 995; Pl. Ex. 78; R. 337, 999).

American Harley's efforts failed. Sales terminated in July, 1963 (R. 341). No more than 1,000 seat belts were sold (R. 340-346). A total of approximately $65,000 was spent by American Harley in attempting to market the seat belt (Pl. Exs. 81A-81D; R. 403-455, 1009-1012).

Irvin's answer to the complaint did not question the validity of the Harley patent (R. 23-26). The case was tried during the early part of 1969. Although a patent issued to Rave was mentioned during trial (Pl. Ex. 21; R. 697, 952; Pl. Ex. 31; R. 196, 963; Pl. Ex. 48; R. 250, 263, 977), it was not introduced in evidence. Rave was relied upon to justify reduction of British Harley's royalty upon European and English sales of the buckle, which Irvin demanded after British Harley had refused to take the rights under the patent away from American Harley (A12, Appendix to Petitioner's Brief).

POINT I.

The decision of the Court of Appeals does not prohibit copying an unpatented article.

Petitioner asks this court to review the decision of the Court of Appeals of the State of New York upon the ground that it conflicts with *Sears, Roebuck & Co. v.*

Stiffel Co., 376 U. S. 225 (1964) and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U. S. 234 (1964). In both cases, it was held that common law principles of unfair competition, applicable in some jurisdictions where the copying of a competitor's product is shown, could not be relied upon to prohibit competition where it had been found that the product was not covered by a valid patent.

The decision of the Court of Appeals of the State of New York does not conflict with the decisions of this court.

Petitioner neither pleaded, proved, or seriously argued during trial that the Harley patent was invalid (A-5, A-12, Petitioner's Brief). No offer of proof of invalidity was made. The patent which it is now argued anticipates the Harley patent, Raye, was not even offerd in evidence. No one testified that the standards of invention were not met. The decision does not show any resurrection of patent monopoly through operation of State law.

Petitioner did not merely copy a patented device. It tortiously induced the breach of a licensing agreement through falsehoods and economic duress. It availed itself—at least insofar as its customers were concerned—of patent rights which it knew belonged to another (A-14, Petitioner's Brief). Petitioner distorts this court's decisions in contending that such predatory business practices could have been justified or shown to harmonize with Federal patent law if petitioner had shown that the patent was invalid.

POINT II.

Respondent was not required to sue in a Federal court.

Petitioner contends that the courts of the State of New York lack jurisdiction of respondent's claim since it is essentially one for patent infringement within the exclusive jurisdiction of Federal courts by virtue of *Section 1338, Title 28, United States Code*. Petitioner characterizes the cause of action as one for patent infringement because of the view that respondent was damaged because its article was copied.

The argument that petitioner simply copied ignores the great efforts taken by petitioner to avoid being cast in the role of an infringer and the impact of such efforts. The damage to respondent and the gain of petitioner was far greater than would have occurred if petitioner had simply infringed the Harley buckle. Petitioner utilized the patentee's consent as a sales point, placed the patent number on its product, and referred to it in its advertising (P. A-14, Petitioner's Brief). Petitioner's conduct opened a chasm between respondent and British Harley.

The decision of the Court of Appeals follows this court's holdings that common law actions need not be maintained in Federal courts although patents may be involved and questions of validity relevant.

> *Pratt v. Paris Gas Light & Coke Co.*, 168 U. S. 255 (1897);
> *American Well Works Co. v. Layne and Bowler Co.*, 241 U. S. 257 (1916);
> *Luckett v. Delpark, Inc.*, 270 U. S. 496 (1926);
> *Lear, Inc., v. Adkins*, 395 U. S. 653 (1969).

See also,

Kovatron Company, Inc., v. Deering Milliken, Inc., 418 F. 2d 1314 (9th Cir. 1969), *cert. denied* 398 U. S. 929 (1970).

POINT III.

The complaint states a valid cause of action.

Petitioner claims that encroachment upon the paramount Federal scheme of patent regulation results from the holding of the Court of Appeals that the complaint cannot be attacked. The complaint "avers that petitioner was granted the permission to exploit the patented article by the co-owner of the patent," Mr. Harley (P. 16, Petitioner's Brief). According to petitioner, Mr. Harley was not a party to the license and had the right to exploit the patent by virtue of *Section 262, Title 35, United States Code*.

Petitioner neglects to say that the complaint also alleges that permission was wrongfully given by British Harley. Petitioner did not attack the complaint, or the allegations regarding Mr. Harley, before or during trial. The case was submitted to the jury on the theory that British Harley, not Mr. Harley individually, was induced to breach the agreement (P. A.15, Petitioner's Brief).

POINT IV.

The measure of damages was not required to be the same as in a patent infringement case.

Petitioner argues that the measure of damages approved by the Court of Appeals—respondent's lost in-

vestment conflicts with Federal patent laws. According to petitioner, if respondent had sued for patent infringement, damages would have been lower since their measure would have been reasonable royalties, license fees, lost profits or petitioner's profits. But petitioner did not simply infringe the patent and nothing entitles petitioner to the measure of damages applicable if it had merely copied the device.

It should also be observed that it is not at all clear that a suit for infringement would have resulted in a lower judgment. A Federal court has power to treble damages and to award attorneys' fees in an infringement suit.

Conclusion.

None of the arguments raised by petitioner deserve consideration by this court. The decision below is in harmony with and does not conflict with this court's decisions. The petition for a writ of certiorari should be denied.

Dated: New York, N.Y.,
January 29, 1971.

Respectfully submitted,

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